OFFICE OF

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

MAR 27 2000

MEMORANDUM FOR THOMAS A. FERGUSON, DIRECTOR

BUREAU OF ENGRAVING AND PRINTING

FROM:

Dennis S. Schindel Lune

Assistant Inspector General for Audit

SUBJECT:

Audited Fiscal Year 1999 Financial Statements of

the Bureau of Engraving and Printing

I am pleased to transmit and acknowledge issuance of OIG-00-071 report on the Bureau of Engraving and Printing (BEP) 1999 Chief Financial Officers Annual Report. BEP's financial statements were audited by Ernst & Young, LLP, an Independent Public Accountant (IPA). The IPA issued the following reports, which are included in the attachment:

- Report of Independent Auditors on the Internal Control Over Financial Reporting;
- Report of Independent Auditors; and
- Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With Government Auditing Standards.

The IPA rendered an unqualified opinion on the financial statements for Fiscal Years 1999 and 1998. In addition, the report on compliance and internal control disclosed no instances of noncompliance and no material weaknesses.

The IPA has issued a management letter dated November 24, 1999, discussing various issues that were identified during the audit, but are not required to be included in the audit reports.

As in the prior year, my staff monitored the conduct of this audit and performed a quality control review of the IPA's working papers. The audit was performed in accordance with *Government Auditing Standards*, as issued by the Comptroller of the United States.

Page 2

Should you have any questions, please contact me on (202) 927-5400, or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit (Financial Management) on (202) 927-5430.

Attachment



DEPARTMENT OF THE TREASURY BUREAU OF ENGRAVING AND PRINTING

CHIEF FINANCIAL OFFICER ANNUAL REPORT 1999

Table of Contents

- i Message from Director
- ii Production of a Dollar Bill
- iv Message from CFO
- 1 Highlights of the Year
- 2 Profile of the Bureau
- 6 FMFIA Plans and Accomplishments
- 8 Custody of Assets
- 9 Summary of OIG Audits
- 10 Strategic Plan
- 11 Customer Service Performance Measures
- 12 Program Performance Measures
- 15 Management Discussion and Analysis
- 18 Reports of Management and Auditors on Internal Control Over Financial Reporting
- 19 Auditor Report on Financial Statements
- 20 Financial Statements
- 23 Notes to Financial Statements
- 32 Auditor Report on Compliance and on Internal Control Over Financial Reporting
- 33 Auditor Report on Other Financial Information
- 34 Product Line Statements of Operations and Net Position
- 36 Prompt Payment
- 37 Supplemental Information

Message from the Director



his past year reaffirmed my belief in the ingenuity, industriousness, and dedication of the Bureau's employees. After employee buyouts in 1997 and 1998 reduced staffing by more than 12 percent, the remaining workforce was called upon to meet record currency demand in 1999. The Federal Reserve Board ordered 11.4 billion notes to meet an anticipated surge in

currency requirements due to Y2K concerns. The Bureau met this order, and also delivered 19 billion postage stamps to the U.S. Postal Service.

As a result, the Bureau had record revenues and the excess of revenues over expenses increased substantially. Record currency program volume and the Bureau's streamlining efforts contributed to an increase in overall productivity of 16 percent. None of this would have been possible without the extraordinary support of the Bureau's skilled workforce. On behalf of the Executive Staff, I want to thank them for their efforts over the past year.

In an effort to promote efficiency and effectiveness, the Bureau implemented a gainsharing plan in 1999. The plan's development was a joint effort of the Bureau unions and management, and it represents a significant achievement in labor-management partnership at the Bureau. Under the plan, the Bureau sets annual performance benchmarks; one-half of any savings achieved from exceeding those targets is placed in a gainsharing pool, which is divided among Bureau employees at year end. In 1999, the gainsharing pool reflected savings in excess of \$4.3 million.

Throughout the year, the Bureau continued to invest in personnel, research and technology to ensure its ability to meet customer demand for counterfeit deterrence and product quality in a cost-effective manner. New printing presses, electronic examination systems and processing equipment were installed in 1999, and employees are receiving training on the new technology. We are, and are committed to remaining, the world's premier security printer.

Over the past year, in conjunction with the Federal Reserve Board, the Bureau has also continued to test design features for the next generation of the Nation's currency. As computer/printing technology advances, our technology development and investment strategy will remain focused on continuous currency design enhancement to improve counterfeit deterrence and the security of the Nation's currency.



The Bureau's Director meeting with Washington, D.C. educators to discuss work-based learning.

Finally, I would like to express my personal appreciation to all the employees at the Bureau for their outstanding effort this year. Let's build on our legacy as we meet the challenges and opportunities of the next century.

Thomas A. Ferguson

Director

Production of a Dollar Bill

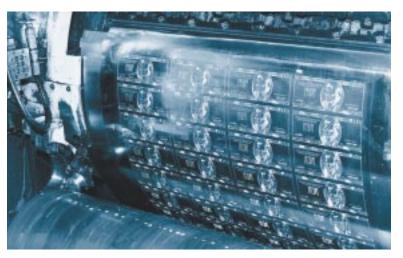
Currency production requires four steps: printing, examining, overprinting and packaging.

The following pictorial offers an overview of each phase of production.

Printing



Currency is printed on intaglio presses. In the intaglio printing process, the desired image is engraved in a plate, which is subjected to high pressure to transfer the inked in image to paper. When printing currency, the back of the note is printed first. Each sheet of currency paper, which will yield 32 notes (32-subject), passes between two cylinders, one holding four engraved plates, the other applying up to



40 tons of pressure. The back is printed using green ink, hence the term "green back." To print the face of the note, the sheets pass through rollers and plates on an intaglio press, much like the back printing process. The face of all notes is printed using black ink. The Treasury and Federal Reserve seals and serial numbers are not printed on the face of the note at this time.

Examination



In examination, the printed sheets are subject to an electronic inspection. High-speed cameras are used to compare the front and back of the sheets to a "golden image".



Any nonconforming sheets are removed and destroyed. The examined sheets are then moved to the next phase of production, currency overprinting.

III ONBHUNDREDDOMARS III

Currency Overprinting



The currency overprinting section prints the Department of the Treasury seal, the Federal Reserve seal and the serial numbers on the front of the note using an overprinting and packaging press.



The overprinted sheets are cut into 100 note straps, which are banded, and forty straps (4,000 notes) are then wrapped together in heat-sealed plastic to make a "brick." The bricks are transported to Note Packaging in transparent, sealed containers.

Note Packaging



In Note Packaging, four bricks are wrapped together in a "cash pack" with an additional layer of heat-sealed plastic and labeled for the Federal Reserve System. The cash packs are loaded onto a skid,



which is again wrapped in plastic, and moved to an on-site Federal Reserve vault. The notes now await delivery to and monitization by the Federal Reserve System prior to release to the general public.

Message from the Chief Financial Officer



am pleased to present the Bureau of Engraving and Printing Chief Financial Officer Annual Report for 1999 as required by the Government Management Reform Act. The Chief Financial Officer Annual Report is a consolidated accountability report in support of the Department of the Treasury's participation in a program to streamline reporting.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the fifteenth consecutive year, the Bureau received an unqualified opinion on its financial statements from an independent, certified public accounting firm. In addition, the Bureau had no FMFIA material weaknesses or material instances of nonconformance at the end of 1999. The annual audit and FMFIA review process help ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision making.

The Chief Financial Officers Act provides for Inspector General oversight related to the audit of financial statements. The Office of Inspector General provided a co-Contracting Officer's Technical Representative (co-COTR) during the audit and has conducted a quality review of the external auditor's working papers. The co-COTR of the Office of Inspector General also provided technical oversight during the course of the audit and reviewed this report.

The Bureau has been at the forefront of efforts to ensure computer operability in the year 2000 (Y2K). At the end of calendar year 1996, the Bureau's core information system was upgraded to a Y2K compliant version, and by the end of 1998 all mission critical systems were Y2K compliant. This year, the Bureau contracted with an independent third party to review the results of our testing and to provide independent certification of Y2K compliance

and system operability. As a result of the extensive preparation and testing done over the past three years, the Bureau did not encounter any significant Y2K problems.

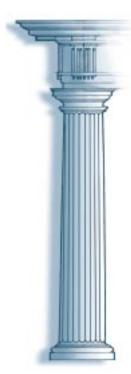
In 1999, the Bureau delivered a record 11.4 billion Federal Reserve Notes and 19 billion postage stamps to the Federal Reserve System and the U.S. Postal Service, respectively. This resulted in revenue of \$567 million and an excess of revenues over expenses of \$38 million. For the year, overall Bureau productivity increased 16 percent, while postage and currency productivity increased by 28 percent and 13 percent, respectively. In addition, spoilage and manufacturing costs for most products were below standard. These results are attributed to record demand and a continuing organizational focus on cost-effectiveness.

This organizational focus was reinforced in 1999 with the introduction of the Bureau's first gainsharing plan. Under the plan, the Bureau sets annual performance benchmarks; one-half of any savings achieved from exceeding those targets is placed in the gainsharing pool, which is divided among Bureau employees at year end. Gainsharing is intended to promote a better understanding of the Bureau's business objectives to employees, and to increase employee involvement in finding cost-effective solutions to production, production support, and administrative support issues. In 1999, savings in excess of \$4.3 million were recorded. These savings were primarily due to increased ink mileage in currency, improved production planning in postage, lower spoilage in the currency and postage programs, and a reduction in administrative expenses.

As the Bureau prepares to meet customer demands in the 21st century, it has the financial resources necessary to continue to invest in personnel and equipment to further enhance counterfeit deterrence, ensure product quality and improve the cost effectiveness of manufacturing processes.

Chief Financial Officer

HIGHLIGHTS OF THE YEAR



For the Bureau, 1999 was a year of record currency demand and surging productivity. Overall productivity increased by 16 percent. Currency productivity increased by 13 percent, while postage productivity increased by 28 percent. During the year, the Bureau delivered a record 11.4 billion Federal Reserve Notes to the Federal Reserve System and 19 billion postage stamps to the U.S. Postal Service. This resulted in record revenues of \$567 million.

As noted below, the Bureau continued to invest in the capacity necessary to meet customer demand and ensure the integrity of the Nation's money supply now and in the future. With respect to the ongoing redesign of currency, new designs for the \$5 and \$10 notes have

been prepared, and they will be introduced in 2000.

Additional financial and operational highlights include:

- Producing a new currency series bearing the signature of Lawrence H. Summers, who was recently confirmed as Secretary of the Treasury;
- Installing two new intaglio currency printing presses and one new currency overprinting and packaging press in Washington, DC;
- Installing three electronic currency inspection systems, two in Washington, DC and one in Fort Worth, TX;
- Receiving a "Hammer Award" from Vice President Gore for the Office of Postage Stamp Production's efforts to accelerate the rollout of self-adhesive stamps;
- Receiving the Director's Award from the Office of Personnel Management for the Bureau's Alternative Dispute Resolution (ADR) program;



Tom Harris, the Bureau's Deputy Director (center), accepting the 1999 OPM Director's Award for Outstanding Alternative Dispute Resolution (ADR) Program. Also pictured from left to right: Bruce Crouch, Andre Faulk, OPM Director, Janice Lachance, U.S. Attorney General, Janet Reno, Sheila Walcott, and Linda Bradford-Washington.

- Introducing several new numismatic products for currency collectors including limited edition items and low serial number Federal Reserve Notes;
- Implementing, through the Bureau's Joint Labor-Management Partnership, a gainsharing program that financially rewards Bureau employees for improved productivity and reduced costs;
- Receiving an unqualified opinion on Bureau financial statements for the fifteenth consecutive year, and
- Upgrading the security and facade of the 15th Street entrance to the Main Facility in Washington, DC.

(All Dollars in Millions)	1998	1999
Sales Revenue	\$436.6	\$567.4
Capital Investment	\$33.0	\$27.8
General and Administrative Costs	\$37.2	\$34.1
Research and Development	\$4.5	\$5.8
Total Assets	\$630.3	\$669.8
Excess of Revenue over Expenses	(\$23.0)	\$38.0
Federal Reserve Notes Delivered (Billions)	9.2	11.4
Postage Stamps Delivered (Billions)	19.7	19.0

PROFILE OF THE BUREAU OF ENGRAVING AND PRINTING



The mission of the Bureau of Engraving and Printing is to securely and efficiently produce United States currency, postage stamps, and other government securities that satisfy the current and future needs of the American public and the government agencies it serves.

The Bureau of Engraving and Printing operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a)(4) to engrave and print currency and other security documents. Operations are financed by means of a revolving fund established in 1950 in accordance with the provisions of Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations, including administrative expenses. In

1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.

The Bureau produces U.S. currency, U.S. postage stamps, and many other security documents issued by the Federal Government. Other activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with requirements of customers. In addition, the Bureau provides technical assistance and advice to other Federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The Bureau is also responsible for the accountability and destruction of internally generated security waste products.

The Bureau also has a strong commitment to community service. Through its Adopt-a-School Program and related school partnership projects, the Bureau is mentoring and tutoring students in both Washington, DC and Fort Worth, TX to help

prepare them for careers in today's high technology workplace. The Bureau also has an award winning Community Outreach Program that provides an opportunity for employees to give back to the communities where they live and work.



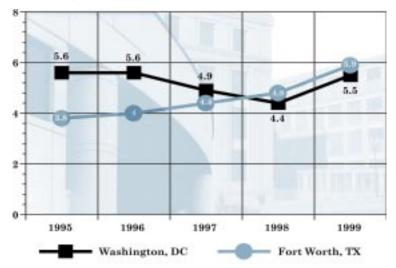
The Bureau occupies three government-owned facilities. The Main Building and Annex Building, located in Washington, DC, produce Federal Reserve Notes, postage stamps and other security products. The Western Currency Facility, located in Fort Worth, Texas, produces Federal Reserve Notes. The Main Building became operational in 1914, the Annex Building in 1938, and the Western Currency Facility in 1991. The facility in Fort Worth was constructed to provide increased production capacity to meet the Nation's growing demand for currency, while providing a second currency manufacturing site to enhance emergency preparedness. In 1997, the Bureau assessed the feasibility of replacing the Washington, DC facility. An analysis of the "Future of Money," which was completed this year, notes that currency demand will be affected by e-cash, smart cards, debit cards, the issuance of the Euro, and many other factors. Consequently, the Bureau has determined that it will be most cost effective to invest in the modernization of the present buildings and undertake some expansion of the Fort Worth facility.

In addition to housing production facilities, the main building in Washington, DC offers a free tour of currency operations to the general public, which is seen every year by over one-half million visitors. The Bureau is continuing to renovate the tour. Renovation activity is limited to the winter months, which typically experience the lowest tour volume.

The Bureau also operates a Visitor's Center that sells uncut sheets of currency and other collectibles at a small store in the Main Building, through mail order and over the Internet (www.moneyfactory.com). In 1999, the Bureau introduced several new items to the numismatic market. One of the most successful was a limited-edition set of \$20 Federal Reserve Notes, one from each Federal Reserve District Bank, bearing the same low serial number.

Currency Production by Facility

Billions of Notes



Manufacturing

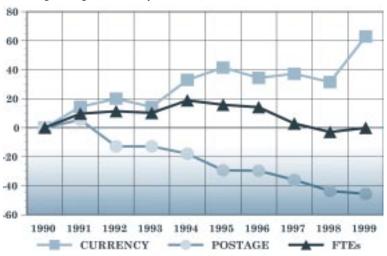
During the year, the Bureau delivered a record 11.4 billion Federal Reserve Notes to the Federal Reserve System. The Washington, DC and Western Currency Facilities delivered 5.5 billion and 5.9 billion Federal Reserve Notes, respectively, as currency production at the Western Currency Facility exceeded production in Washington, DC for the second consecutive year. The record currency order in 1999 was part of the Federal Reserve Board's preparation for an anticipated surge in the demand for currency due to Y2K concerns. For 2000, the Federal Reserve System has ordered 9 billion Federal Reserve Notes.

Deliveries of the redesigned \$20, \$50 and \$100 Federal Reserve Notes continued in 1999. The redesigned notes incorporate advanced counterfeit deterrent features to thwart technological advances available to counterfeiters and maintain the integrity of the Nation's currency, as well as enlarged numerals to aid the visually impaired. Almost 6.4 billion redesigned notes were delivered this year. The U.S. currency redesign effort will continue into the 21st century as redesigned \$10 and \$5 notes will be introduced in 2000.

Almost 19 billion postage stamps were delivered to the U.S. Postal Service during the year. In response to consumer demand, over 83 percent of the Bureau's stamp deliveries in 1999 were pressure sensitive (self-adhesive) stamps. The U.S. Postal Service has ordered 15 billion postage stamps for 2000.

Program and FTE Changes

Percentage change from base year

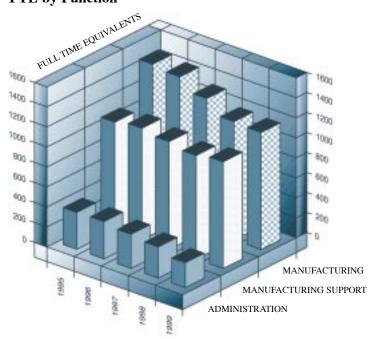


The Bureau continued to invest in state-of-the-art technology to enhance production capabilities and improve productivity. This year, the older printing and processing equipment in Washington, DC was substantially upgraded. Two automated electronic currency inspection systems, two new intaglio currency printing presses, a new overprinting press and an offset press for development of new currency designs became operational in the Washington facility. One automated electronic currency inspection system was also installed in Fort Worth. In addition, work was completed to enhance perimeter security at the Washington facility.

The Bureau's cost reduction initiatives continued into 1999 with the introduction of a gainsharing plan. The plan mirrors the "best practices"/"goal sharing" found in private manufacturing companies. Gainsharing is intended to promote a better understanding of the Bureau's business objectives to employees, and to increase employee involvement in finding cost-effective solutions to production, production support, and administrative support issues. The plan's development was a joint effort of the Bureau unions and management, and it represents a significant achievement in labor-management partnership at the Bureau. Under the plan, the Bureau sets annual performance benchmarks; one-half of any savings achieved from exceeding those targets is placed in the gainsharing pool, which is divided among

Bureau employees at year end. A Gainsharing Committee sponsored by the Joint Labor-Management Partnership Council administers the plan. In 1999, the gainsharing pool reflected savings in excess of \$4.3 million. These savings were primarily due to increased ink mileage in currency, improved production planning in postage, and lower spoilage in both programs.

FTE by Function

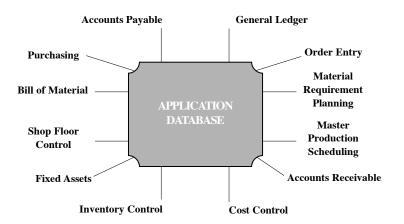


Information Technology

The Bureau of Engraving and Printing Management Information System (BEPMIS) is an on-line, real-time integrated enterprise resource planning system, which maintains financial and manufacturing information, while ensuring product accountability at both facilities. BEPMIS is year 2000 (Y2K) compliant. In 1998, the system was tested extensively as part of the Bureau's Y2K certification process, and an independent validation and verification contractor reviewed the results of these tests in 1999. As a result of the extensive preparation and testing done over the past three years, the Bureau did not encounter any significant Y2K problems.

In conjunction with its Y2K efforts, the Bureau continued its personal computer replacement/upgrade program. The older hardware and software were donated to local school systems as part of the Bureau's community relations program. Almost \$200 thousand worth of computer hardware and software was donated to Washington, DC public schools in 1999.

Bureau of Engraving and Printing Enterprise Resource Planning System



The Bureau's executive structure includes the Bureau Director, Deputy Director, four Associate Directors, and Chief Counsel. In addition, during FY2000 an executive level position (Assistant Director) will be created to oversee the areas of environmental compliance and safety. Functional responsibilities are delegated to various senior managers. The executive committee structure includes an Executive Committee, the Capital Investment Committee, the Information Resource Management Committee and vari-

senting diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication and participative, pro-active management.

ous planning committees and subcommittees. The planning and sub-

committees are composed of a

cross section of senior and

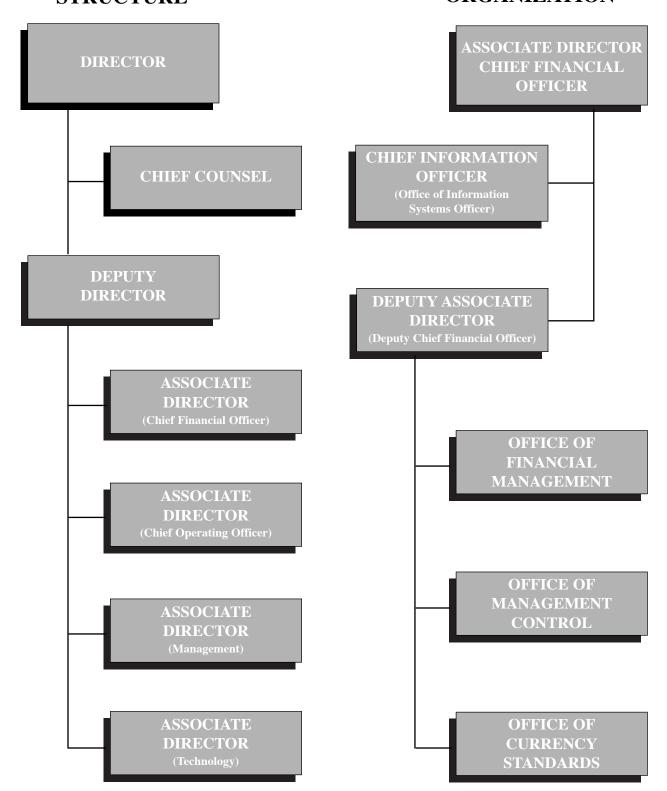
mid-level managers repre-



Coordinator, Tracy Roberson.

EXECUTIVE ORGANIZATIONAL STRUCTURE

CHIEF FINANCIAL OFFICER ORGANIZATION



FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PLANS AND ACCOMPLISHMENTS



The Federal Managers' Financial Integrity Act (FMFIA) of 1982 mandated that agencies establish programs and regular evaluations of management controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act in 1990 further increased the governments management control requirements.

The Bureau has a history of strong management controls and an aggressive monitoring program. Key elements of this program include comprehensive financial management controls, personnel security controls, production and quality controls, computer security and information resources management programs, and strong physical security and product

accountability functions to safeguard products and assets. The Bureau's Strategic Plan reflects this emphasis. Security and accountability and resource management are major strategic goals. Specific targets include: reducing the product shipment discrepancies rate, maintaining a zero tolerance for security violations, ensuring that no material internal control weaknesses occur and continued improvement in the accuracy and timeliness of data in the Bureau's management information system.

The Bureau's Compliance Review Team (CRT) promotes compliance with Bureau operating policies and procedures. The CRT performs unannounced reviews in production and storage areas that are in custody of security items. During 1999, the CRT performed 114 unannounced reviews. The results of the reviews were reported to Office Chiefs, as well as the supervisors and managers responsible for enforcing the policies and procedures and implementing the corrective actions.

To further enhance currency accountability, the Office of Management Control (OMC) developed detailed accountability

ASSURANCE STATEMENT FISCAL YEAR 1999

As required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Bureau of Engraving and Printing has evaluated both its management controls and financial management systems for fiscal year 1999. The results of these evaluations provided reasonable assurance that the management systems (Section 2) and the financial management systems (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the Office of Management and Budget. In addition, the Bureau has no instances of material management control weaknesses; no material nonconformances; and, no material management control weaknesses or material nonconformances outstanding as of September 30, 1999. Also, based on Office of Management and Budget (OMB) guidance, OMB Bulletin 98-08 (Audit Requirements for Federal Financial Statements), the Bureau can state that it is in substantial compliance with the applicable provisions of the Federal Financial Management Improvement Act of 1996.

Thomas A. Ferguson

Director

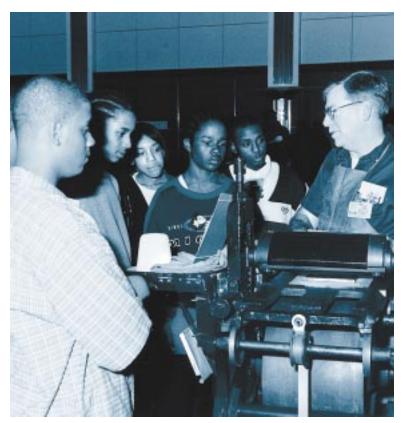
procedures for currency printing and processing in 1999. These procedures are much more detailed than previously existing procedures and provide currency managers and supervisors with greater control and accountability over their operations. Further, this effort will support the Bureau's pursuit of International Organization for Standardization (ISO) 9001 certification, which requires detailed documentation of an organizations business processes. OMC will conduct detailed compliance reviews utilizing the new procedures.

Early in fiscal year 1999, the Bureau began using transparent, secure containers to improve control over finished currency.

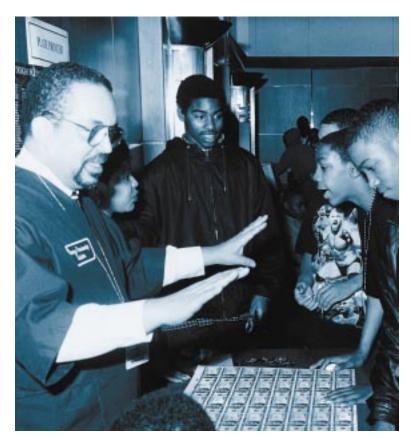
Additional currency control enhancements, which began in 1998, continued in 1999. OMC personnel perform visual and physical inspections of all shrink-wrapped currency bricks prior to final wrapping in the Note Packaging Section.

An Internal Control Awareness Program and monthly Flash Reports to executives and managers regarding outstanding corrective actions are used to promote the visibility and understanding of management control issues, objectives and requirements. The Office of Management Control conducts additional specific projects to strengthen the Bureau's internal controls and help ensure compliance with existing policies and procedures.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the



As part of the Community Outreach Program, the Bureau mentors students from local schools and sponsors an Annual Career Day Fair.



Students from Elliot Junior High School in Washington, DC receiving an overview of printing and manufacturing techniques.

fifteenth consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. The annual audit and FMFIA review process help ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision making.

The Computer Systems Security Division (CSSD) provides overall computer security administration for the Washington, DC facility and the Western Currency Facility. The CSSD provides policies, procedures, guidance and technical advice to Bureau senior management regarding computer security issues. In keeping with today's new information technology requirement for strong internal controls, the Division is addressing such issues as Public Key Infrastructure, digital signatures, and encrypted telecommunications.

CUSTODY OF ASSETS



As the printer of all United States currency and most U.S. postage stamps, the Bureau of Engraving and Printing has a unique fiduciary responsibility to the American public with respect to the custody and safeguarding of its assets and high-value items. In addition to the main-line production of currency and postage stamps, the Bureau has many high value items that are used for various purposes, such as research, product testing and historical collections.

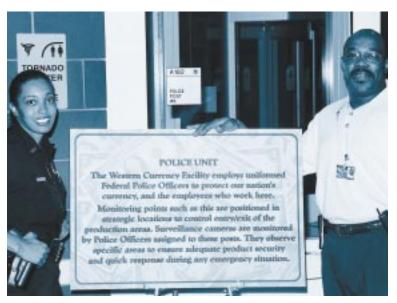
Currency products and other items used in test, experimental, research and other off-line activities are normally expensed immediately and are not carried as assets in the Bureau's financial statements. The costs expensed are immaterial to the financial statements.

Nevertheless, many of these items have high intrinsic value. Therefore, the Bureau ensures that adequate controls are in place to properly safeguard these items. Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC and Fort Worth, TX.

The Bureau has display areas at each of its facilities and maintains historical collections at its headquarters in Washington, DC. The displays and historical collections include valuable artifacts related to currency and postage stamp operations, as well as other securities produced by the Bureau. While these collections are not included in the inventory balances as reported in the financial statements, appropriate custodial records and controls are maintained. Physical inventories are performed regularly to ensure accountability for these collections.

Bureau management recognizes its fiduciary and custodial responsibilities and has implemented effective internal control and security systems. To ensure that these systems are functioning properly, management has institutionalized an organizational focus on the safeguarding and accountability of all assets. This

focus is reflected in the Bureau's organizational structure. Reporting to the Associate Director (Chief Financial Officer), who has oversight responsibility with respect to management controls, is the Office of Management Control. This office evaluates and monitors management control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director (Management), plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security as well as securities destruction. Through this structure, individual unit managers are held accountable and responsible for maintaining proper custody and safeguarding of all assets under their control. To further reinforce the internal control and security structure, a security and internal control element is included in each employees performance plan. Employees are rated annually regarding their performance with respect to this element.



Jo Ann Dudley and David Lang present an overview of police/security operations during the Western Currency Facility's Family Day.

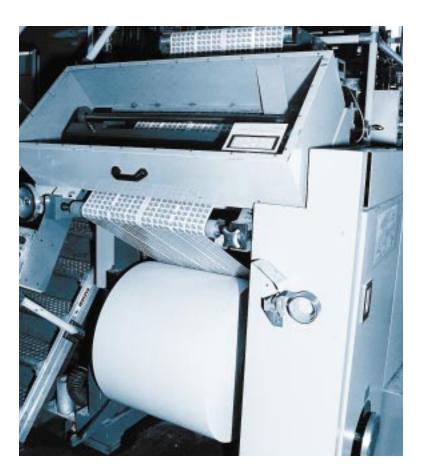
SUMMARY OF OFFICE OF INSPECTOR GENERAL AUDITS



The Bureau began 1999 with six open audit recommendations issued by the Office of Inspector General (OIG). During 1999, the Bureau received 13 additional recommendations in seven OIG audit reports. These recommendations resulted from audits requested by Bureau contracting officers as well as audits planned by the OIG. Three recommendations pertained to contract issues and involved the planned acquisition of services, materials or equipment. Ten recommendations involved program issues such as vault security, year 2000 compliance efforts, new equipment, and currency inspection systems. Fifteen of the recommendations were implemented or addressed in 1999 resulting in monetary benefits of more than \$5 million. The remaining recommendations will be addressed as appropriate.



From large printed rolls containing five to six million stamps, Bureau processing equipment will examine, cut and coil the stamp.





The Bureau produced 19 billion postage stamps in 1999, over 10 billion in coils of 100.

STRATEGIC PLAN



The Bureau has continuously assessed the organization's mission and goals in relation to its external environment and internal capabilities. The Strategic Plan's objective is to ensure the Bureau's ability to produce new and improved products with increased efficiency, and to meet the expectations of its customers and the American people for better service and more efficient operations. It also recognizes the need to set annual performance goals and to identify measures to gauge progress.

The executive staff established New Products, Quality Assurance, Cost Reduction Initiatives, Security and Accountability, and Human Resources Planning as Annual Performance Goals for 1999. Individual project plans to

support these goals were developed and implemented by the appropriate offices. The Bureau held semi-annual meetings to evaluate progress and track performance with respect to the tasks identified in the project plans.

The long-term goals in the Strategic Plan remained consistent throughout 1998 and 1999. The Bureau's four strategic goals are listed below:

Strategic Goals

• Customer Satisfaction

To satisfy the needs of the Federal Reserve System, the U.S. Postal Service, other government agencies, and the American public by providing responsive service and secure quality products.

• Manufacturing

To improve the quality, productivity, and cost effectiveness of the Bureau's core manufacturing processes.

• Security and Accountability

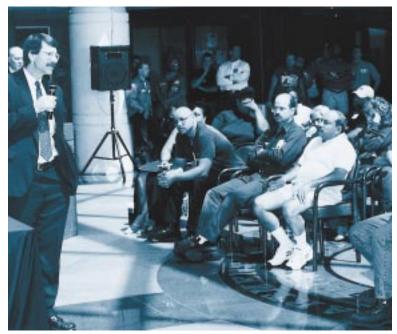
To ensure an environment of comprehensive security and accountability for the Bureau's personnel, facilities, and products.

• Resource Management

To manage the Bureau's resources to increase internal efficiency and effectiveness in support of the goals of customer satisfaction, manufacturing and security.

The Strategic Plan incorporates feedback and input from all significant stakeholders, including the Department of Treasury, the Office of Management and Budget, House and Senate Committees, customer agencies and Bureau employees. The goals and objectives in the 1999 Strategic Plan were translated into specific actions and measures that were targeted toward achieving the Bureau's mission and improving organizational performance.

To help ensure product quality and customer satisfaction, the Bureau established a cross-functional team to begin implementing the ISO (International Organization for Standardization) 9001 Quality System Standard in 1999. Once the requirements of this internationally recognized quality standard are met, the Bureau plans to seek ISO certification. In this manner, a Bureau-wide focus on and commitment to customer satisfaction and product quality will become part of the culture of the Bureau.



Bureau Director, Tom Ferguson hosting a "Town Meeting" at the Western Currency Facility.

CUSTOMER SERVICE PERFORMANCE MEASURES



The Bureau provides a variety of goods and services to the Federal Reserve System and the U.S. Postal Service. The Bureau is the sole supplier of paper currency and the leading supplier of postage stamps. The Bureau also prints a variety of products for other government agencies that require a high level of security during printing and processing, such as military identification cards, Presidential and pocket commissions, and Immigration and Naturalization forms. In addition to the production of securities, a tour of Bureau operations is provided to the public free of charge.

The Bureau is a customer-driven organization and providing the highest quality customer service is a priority. Customer satisfaction is the Bureau's number one strategic goal. In concert with this, one

of the key objectives of the Bureau's Strategic Plan is providing world-class customer service.

The Bureau continually seeks feedback from its customers on performance and uses that feedback to implement changes to improve service. The Bureau's largest customers, the U.S. Postal Service and the Federal Reserve System, identified product quality, customer service, and security as the most important customer satisfaction priorities. In 1999, customer satisfaction improvement initiatives to provide responsive service and secure quality products continued.

Federal Reserve System

All currency deliveries in 1999 met established dates. In accordance with the established standards, all discrepancies in Bureau shipments or defects in product quality were acknowledged within 48 hours.

U.S. Postal Service

In accordance with the established standards, requests for changes in production scheduling were responded to within 24 hours. All 1999 postage stamp deliveries met established dates and discrepancies were resolved in a timely manner.

Special Products

All inquiries were responded to within 24 hours, and all discrepancies were resolved in a timely manner. In addition, product security features have been implemented in accordance with customer requirements.

Mutilated Currency

The Bureau's Mutilated Currency Program redeems partially destroyed or badly damaged currency for the general public. In 1999, the Bureau processed approximately 29 thousand mutilated currency cases, redeeming \$85 million in damaged currency. All inquiries were responded to promptly and claims were processed or claimants notified in accordance with established customer service standards.

Public Tour

In addition to the production of securities, a tour of Bureau operations in Washington, DC is provided free of charge, as a public service. During 1997, the Bureau began renovating the tour to improve visitor comfort and customer satisfaction. This year several new exhibits have also been added to enhance the Bureau's tour. As a result of these improvements, overall satisfaction with the tour continues to increase.



The Office of Stamp Production received Vice President Gore's Hammer Award for the accelerated introduction of pressure sensitive (self-adhesive) stamp products. Pictured from left to right: Jerry Hudson, Thomas Arney, Doug Gandy, Robert Vass, Mabel Hailes, William W. Wills, the Bureau's Chief Operating Officer, and Larry Graves.

PROGRAM PERFORMANCE MEASURES



The Bureau measures the efficiency and effectiveness of its overall organizational performance by using program performance measures. Standards are reviewed and updated annually based on past year's performance, contracted price factors, and anticipated productivity improvement. In addition to the existing Bureau-level performance measurement system, an office-level performance measurement system was implemented in 1995 under the umbrella of the Government Performance and Results Act (GPRA).

Bureau-level performance measures and associated results for 1999 are as follows:

Program Performance

1999 Standard	1999 Actual
\$26.50	\$25.87
\$ 1.43	\$ 1.31
11.4	11.4
18	19
0.0%	+15.9%
0.0%	+28.1%
0.0%	+12.9%
5.1%	4.5%
12.0%	9.2%
	\$26.50 \$1.43 \$1.44 \$18 \$0.0% \$0.0% \$5.1%

The Bureau does not receive Federal appropriations; operations are financed solely by product sales. Customer billings are the Bureau's only means of recovering the costs of operations and generating funds for capital investment. Billing rates are based on established standard costs, which are predicated on historical costs and factors such as changes in labor material and overhead costs. In order to ensure that sufficient cash is provided for operations, the Bureau must perform to these standard costs.

Currency	1999	1999
(Cost Per Thousand Notes)	Standard	Actual
Federal Reserve Notes	\$26.50	\$25.87

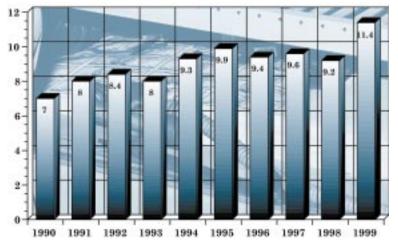
The actual production cost per thousand currency notes, which includes direct labor and materials and applied manufacturing overhead, was about two percent below standard in 1999. This was primarily due to lower than anticipated spoilage and a significant improvement in ink mileage.

Postage	1999	1999
(Cost Per Thousand Stamps)	Standard	Actual
100 Stamp Coil (PSA)	\$ 1.43	\$ 1.31

The actual production cost per thousand stamps for the 100 Stamp Coil with pressure-sensitive adhesive (PSA) was more than eight percent below standard. This was the result of lower than anticipated spoilage and a decrease in labor costs as postage personnel were utilized to help meet record currency demand.

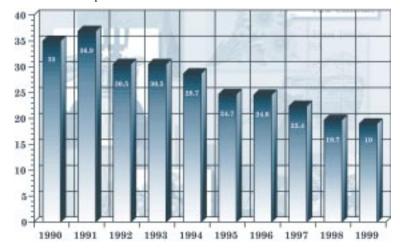
Currency Program

Billions of Notes



Postage Program

Billions of Stamps



	1999	1999
Products Delivered to Customers	<u>Order</u>	Delivery
Federal Reserve Notes (Billions)	11.4	11.4
Postage Stamps (Billions)	18	19

In 1999, the Bureau delivered a record 11.4 billion Federal Reserve Notes to the Federal Reserve System and 19 billion postage stamps to the U.S. Postal Service. Deliveries and billings are based on orders received from customers; customer agencies submit their requirements to the Bureau annually. In most years, actual production does not equal deliveries because production of the subsequent years order typically starts before the new year.

	1999	1999
Productivity Change	Standard	Actual
Overall Productivity	0.0%	+15.9%
Postage Productivity	0.0%	+28.1%
Currency Productivity	0.0%	+12.9%

Productivity is calculated using Bureau of Labor Statistics methodology. In 1999, overall productivity increased by 15.9 percent, postage productivity rose by 28.1 percent, and currency productivity increased by 12.9 percent. Productivity surged as a result of increased utilization of new equipment, record currency demand, and ongoing adjustments to staffing in the production areas. The Bureau's staffing levels (apprenticeship and training programs) focus on projected, long-term demand and demand trends, not fluctuations in year-to-year orders. Over the

long term, overall Bureau productivity continues its upward trend as investments in state-of-the-art technology provide for increased productivity.

	1999	1999
Currency Spoilage	Standard	<u>Actual</u>
Federal Reserve Notes	5.1%	4.5%

1000

1000

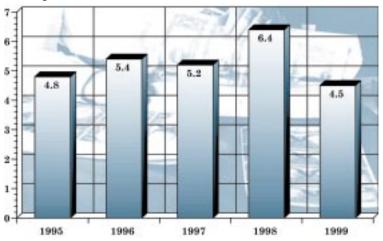
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1000

Spoilage is an inherent result of any production process. The level of spoilage is an indicator of the overall effectiveness of the production process and quality of material inputs. Overall currency spoilage in 1999 was below standard as a result of increased utilization of newer printing presses and electronic examination equipment, as well as increased employee expertise in printing and processing the redesigned currency.

Currency Spoilage

Percentage



	1999	1999
Postage Stamp Spoilage	Standard	Actual
100 Stamp Coil (PSA)	12.0%	9.2%

Postage stamps are printed on web presses (roll fed). This printing process is much faster than sheet-fed printing, which is used for Federal Reserve Notes. As a result of this faster processing, spoilage rates for postage stamp printing are higher when compared to currency printing. Spoilage on the 100 Stamp Coil (PSA) was below standard as a result of improved production planning, which resulted in longer printing runs in 1999. Longer runs allowed the printing press to operate uninterrupted for greater lengths of time, eliminating the spoilage that normally occurs with starts and stops of the equipment.

1000

	1005	1000	1000
1. Federal Reserve Note	1997	1998	1999
(Cost Per Thousand Notes)	\$18.65	\$24.34	\$25.87
(Cost 1 cr 1 mousund 1 totes)	1 1 (2-4)	Ψ2 110 1	Ψ20107
2. Federal Reserve Notes			
Delivered (Billions)	9.6	9.2	11.4
3. Postage Stamps			
(Cost Per Thousand Stamps)			
100 Stamp Coil (PSA)	\$1.3654*	\$1.3899*	\$1.3097
4. Postage Stamps			
Delivered (Billions)	22.4	19.7	19.0
5. Overall Productivity Change	+4.7%	+1.5%	+15.9%
a. Currency Productivity Change	+3.6%	-2.4%	+12.9%
b. Postage Productivity Change	+6.9%	+13.8%	+28.1%
6. Currency Spoilage	5.2%	6.4%	4.5%
7. Postage Stamp Spoilage			
100 Stamp Coil (PSA)	10.7%*	12.5%*	9.2%

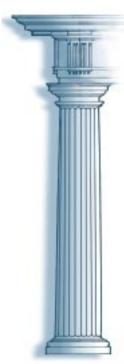
^{*}These figures represent the results for the 100 Stamp Flag Coil (PSA), which comprised the bulk of the 100 stamp coil program in 1997 and 1998.

For those performance measures that are comparable, the results of the past three years are presented. New cost and spoilage standards are developed annually for all products produced at the Bureau. Because performance to standard is a meaningful performance measure only in the applicable year, only actual manufacturing cost and spoilage data are presented here. Manufacturing costs for currency have been rising primarily due to the higher cost of counterfeit deterrent features (raw materials) in the redesigned notes and increased complexity in the manufacturing process.



Automated currency inspection equipment has enhanced productivity and reduced spoilage.

MANAGEMENT DISCUSSION AND ANALYSIS



Summary

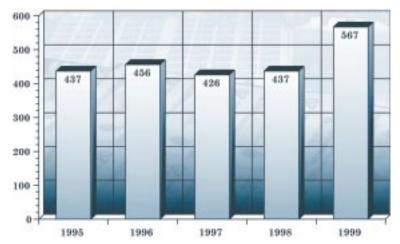
Revenue and the Excess of Income over Expenses increased significantly in 1999 as the Bureau experienced record currency demand. The record demand was due to preparations by the Federal Reserve Board for an anticipated increase in currency demand related to the year 2000.

The Bureau continued to incorporate advanced counterfeit deterrent features in Federal Reserve Notes in 1999, focusing on the redesign of the \$5 and \$10 notes, which will be introduced in the year 2000. Fifty-six percent of the 1999 currency deliveries were redesigned notes, including 4.1 billion of the redesigned \$20 notes. In 1999, overall Bureau pro-

ductivity increased for the fourth consecutive year as a result of staff reductions and increased product demand.

Total Revenue

Millions of Dollars



Cash, Accounts Receivable and Cash Flow

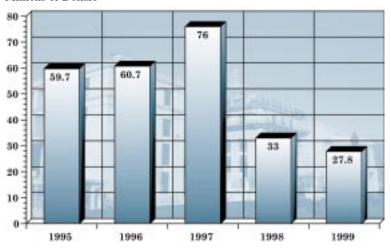
Cash increased from \$139 million in 1998 to \$180 million in 1999, and accounts receivable increased by almost \$10 million. The increase in cash in 1999 was primarily attributable to the Bureau's cost reduction efforts, which resulted in lower than anticipated expenses. Capital expenditures were also lower than anticipated. Accounts receivable increased at year end due to an increase in the September currency order/bill.

Inventories

Inventories increased from \$70 million in 1998 to \$72 million in 1999. Increased currency paper inventories for contingency planning and higher raw material costs related to the advanced counterfeit features included on the redesigned currency notes contributed to an increase in raw material inventory values. In addition, finished goods inventories increased at year end.

Investment in Property and Equipment

Millions of Dollars



Property and Equipment

Net property and equipment decreased from \$351 million in 1998 to \$334 million in 1999. This decrease was the result of depreciation in excess of capital investment, primarily due to reduced capital expenditures as the Bureau focused on meeting the record currency demand in 1999. The level of capital expenditure is expected to increase as the Bureau invests in new currency printing and processing technology and the ongoing capital maintenance of the Washington facilities continues.

Other Assets

Other assets, primarily machinery repair parts and tools, increased from \$26 million in 1998 to \$29 million in 1999. The increase was primarily a result of the need to stock repair parts for new printing and processing equipment. Many of these repair parts have lengthy procurement lead times. Consequently, the Bureau maintains a large inventory to minimize downtime.

Accounts Payable

Accounts payable decreased from \$19 million in 1998 to \$17 million in 1999. This decrease was primarily due to the timing of cash disbursements for vendor payments, which occurred just subsequent to year-end in 1999.

Accrued Current Liabilities

Accrued current liabilities, consisting primarily of payroll and leave accruals, increased slightly in 1999 due to the timing of the pay period in relation to the end of the year.

Advances

Advances to the Bureau remained relatively unchanged in 1999.

Deferred Revenue

Deferred revenue decreased in 1999 as the Bureau recognized \$3 million in deferred revenue from 1998. The remainder of the deferred revenue should be recognized in 2000, as the Bureau makes final delivery of the related product in the first quarter of 2000.

Noncurrent Accrued Liabilities

Noncurrent accrued liabilities decreased from \$6 million in 1998 to \$5 million in 1999 due to a decrease in payments due to the Department of Labor (DOL) for expenses incurred on the Bureau's behalf for workers' compensation. These payments decreased as a result of Bureau efforts to reduce workers' compensation claims and costs.

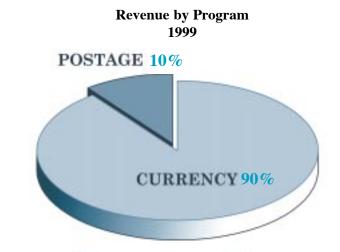
Workers' Compensation Liability

The workers' compensation liability (actuarial) increased to

\$39 million in 1999. This liability reflects the estimated future cost of workers' compensation benefits to be paid as a result of events that occurred before year-end. The Department of Labor makes an actuarial calculation for the Department of Treasury as a whole, which is then allocated to Treasury bureaus based on past claims.

Revenue From Sales

Overall sales revenue increased by \$130 million in 1999. This was primarily due to record currency demand.



AVERAGE BILLING RATE FOR FEDERAL RESERVE NOTES

Fiscal Year	Rate Per Thousand Notes	Rate Per Single Note
1990	\$26.00	\$0.026
1991	\$29.00	\$0.029
1992	\$34.45	\$0.034
1993	\$40.28	\$0.040
1994	\$38.66	\$0.039
1995	\$37.25	\$0.037
1996	\$39.41	\$0.039
1997	\$37.40	\$0.037
1998	\$40.20	\$0.040
1999	\$44.36	\$0.044

Cost of Goods Sold

Cost of goods sold increased from \$414 million in 1998 to \$490 million in 1999. As a percentage of sales revenue, cost of goods sold decreased from 95 to 86 percent. The increased cost was primarily due to the record currency program. Gross margins increased as a result of increased currency ink mileage, lower spoilage in currency and postage stamps and record currency production levels.

Operating Costs

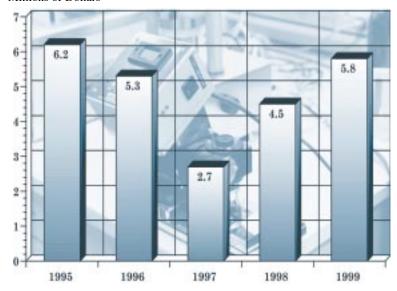
The Bureau's total operating costs decreased by over 13 percent in 1999 primarily due to a reduction in General and Administrative costs and the \$4 million restructuring charge that was recognized in 1998. Research and Development expenses increased due to continuing research into currency counterfeit deterrence.



Examiners (Lenore Ewing above) in the Office of Currency Standards reconstruct mutilated, burned or otherwise damaged currency as a public service. In 1999, over \$85 million worth of such currency was redeemed.

Research and Development Costs

Millions of Dollars





Lorraine Robinson and Roscoe Ferguson examining one of over 29 thousand cases redeemed by the Office of Currency Standards in 1999.

Report of Management on Internal Control Over Financial Reporting

The Bureau of Engraving and Printing maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance to the Bureau's management regarding the preparation of reliable published financial statements. The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective internal control system, no matter how well designed, has inherent limitations—including the possibility of the circumvention or overriding of controls—and therefore, can provide only reasonable assurance with respect to the financial statements preparation. Further, because of changes in conditions, internal control system effectiveness may vary over time.

The Bureau assessed its internal control system as of September 30, 1999, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, "Management Accountability and Control," and in Appendix C of OMB Bulletin 98-08, insofar as such criteria related to financial reporting. Based on this assessment, the Bureau believes that, as of September 30, 1999, its system of internal control over financial reporting met those criteria.

Washington, D.C. November 24, 1999

Gregory D. Carper
Associate Director

Thomas A. Fe

(Chief Financial Officer)

Report of Independent Auditors on Internal Control Over Financial Reporting

Director of the Bureau of Engraving and Printing Department of the Treasury

We have examined management's assertion that the Bureau of Engraving and Printing, a bureau of the Department of the Treasury, maintained effective internal control over financial reporting as of September 30, 1999 included in the accompanying Report of Management on Internal Control Over Financial Reporting.

Our examination was made in accordance with the standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing, and evaluating the design and operating effectiveness of internal control, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the Bureau of Engraving and Printing, a bureau of the Department of Treasury, maintained effective internal control over financial reporting as of September 30, 1999 is fairly stated, in all material respects, based upon criteria for effective internal control over financial reporting established under the Federal Managers' Financial Integrity Act of 1982, the Office of Management and Budget Circular A-123 revised, "Management Accountability and Control," and in Appendix C of OMB Bulletin 98-08, insofar as such criteria related to financial reporting.

Washington, D.C. November 24, 1999 Ernst + Young LLP

Report of Independent Auditors

Director of the Bureau of Engraving and Printing Department of the Treasury

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (the Bureau), a bureau of the Department of the Treasury, as of September 30, 1999 and 1998, and the related statements of operations and cumulative results of operations, and cash flows for the years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as applicable. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued a report dated November 24, 1999 on our consideration of the Bureau's internal control and its compliance with applicable laws and regulations.

Ernst & Young LLP

Washington, D.C. November 24, 1999

19

Balance Sheets

	September 30	
	1999	1998
	(In The	ousands)
Assets		
Current assets:		
Cash (Note 3)	\$179,899	\$139,467
Accounts receivable (Note 4)	51,103	41,419
Inventories (Note 5)	72,495	69,853
Prepaid expenses	2,928	1,458
Total current assets	306,425	252,197
Net property and equipment (Note 6)	333,576	351,209
Advances to other Federal agencies	728	728
Other assets, principally machinery repair parts and tools	29,129	26,154
Total assets	\$669,858	\$630,288
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 16,603	\$ 18,937
Accrued liabilities (Note 7)	27,570	23,288
Advances	1,589	1,628
Deferred revenue (Note 2)	1,957	5,069
Total current liabilities (Note 7)	47,719	48,922
Noncurrent liabilities (Note 8)	5,058	5,806
Workers' compensation costs (Note 2)	38,818	35,278
Total liabilities	91,595	90,006
Commitments and contingencies (Note 11)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	545,828	507,847
Total equity	578,263	540,282
Total liabilities and equity	\$669,858	\$630,288

See accompanying notes.

Statements of Operations and Cumulative Results of Operations

	Year ended September 30	
	1999	1998
	(In Thousands)	
Revenue from sales (Note 9)	\$567,395	\$436,635
Cost of goods sold	489,507	413,562
Gross margin on operations	77,888	23,073
Operating costs:		
General and administrative	34,136	37,168
Research and development	5,771	4,508
Restructuring charges (Note 12)	-	4,349
	39,907	46,025
Excess of revenues over expenses (expenses over revenues) resulting from operations	37,981	(22,952)
Cumulative results of operations at beginning of year	507,847	530,799
Cumulative results of operations at end of year	\$545,828	\$507,847

See accompanying notes.

Statements of Cash Flows

The state of th		Year ended September 30	
Operating activities \$ 37,981 \$ (22,952) Excess of revenues over expenses (expenses over expenses) \$ 37,981 \$ (22,952) Adjustments to reconcile excess of expenses over expenses \$ 37,981 \$ (22,952) Adjustments to reconcile excess of expenses over expenses \$ 45,393 \$ 43,399 Loss on disposal of property and equipment - 108 Changes in assets and liabilities: \$ (2,642) (18,088) Accounts receivable (2,642) (18,088) Prepaid expenses (1,470) 238 Other assets (2,975) (1,853) Accounts payable (2,034) (24,923) Accuted liabilities 3,534 2,726 Advances (39) (1,405) Deferred revenue (3,112) 5,069 Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities (27,760) (33,004) Advances to other Federal agencies - 935 Net cash used in investing activities		1999	1998
Excess of revenues over expenses (expenses over revenues) \$ 37,981 \$(22,952) Adjustments to reconcile excess of expenses over expenses *** *** (expenses over revenues) to net cash provided by operating activities: *** *** Depreciation and amortization 45,393 43,399 Loss on disposal of property and equipment - 108 Changes in assets and liabilities: *** *** Accounts receivable (9,684) 1,411 Inventories (2,642) (18,088) Prepaid expenses (1,470) 238 Other assets (2,975) (1,853) Accounts payable (2,334) (24,923) Accrued liabilities 3,534 2,726 Advances (39) (1,405) Deferred revenue (3,112) 5,069 Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities Additions to property and equipment (27,760) (33,004) Adva		(In Thousands)	
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Inventories (2,642) (18,088) Prepaid expenses (1,470) 238 Other assets (2,975) (1,853) Accounts payable (2,334) (24,923) Accrued liabilities 3,534 2,726 Advances (39) (1,405) Deferred revenue (3,112) 5,069 Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities - 935 Additions to property and equipment (27,760) (33,004) Advances to other Federal agencies - 935 Net cash used in investing activities (27,760) (32,069) Net increase (decrease) in cash 40,432 (46,874) Cash at beginning of year 139,467 186,341	Changes in assets and liabilities:		
Prepaid expenses (1,470) 238 Other assets (2,975) (1,853) Accounts payable (2,334) (24,923) Accrued liabilities 3,534 2,726 Advances (39) (1,405) Deferred revenue (3,112) 5,069 Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities 27,760) (33,004) Advances to other Federal agencies - 935 Net cash used in investing activities (27,760) (32,069) Net increase (decrease) in cash 40,432 (46,874) Cash at beginning of year 139,467 186,341	Accounts receivable	(9,684)	1,411
Other assets (2,975) (1,853) Accounts payable (2,334) (24,923) Accrued liabilities 3,534 2,726 Advances (39) (1,405) Deferred revenue (3,112) 5,069 Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities 27,760) (33,004) Advances to other Federal agencies - 935 Net cash used in investing activities (27,760) (32,069) Net increase (decrease) in cash 40,432 (46,874) Cash at beginning of year 139,467 186,341	Inventories	(2,642)	(18,088)
Accounts payable (2,334) (24,923) Accrued liabilities 3,534 2,726 Advances (39) (1,405) Deferred revenue (3,112) 5,069 Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities 27,760) (33,004) Advances to other Federal agencies - 935 Net cash used in investing activities (27,760) (32,069) Net increase (decrease) in cash 40,432 (46,874) Cash at beginning of year 139,467 186,341	Prepaid expenses	(1,470)	238
Accrued liabilities 3,534 2,726 Advances (39) (1,405) Deferred revenue (3,112) 5,069 Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities 27,760) (33,004) Advances to other Federal agencies - 935 Net cash used in investing activities (27,760) (32,069) Net increase (decrease) in cash 40,432 (46,874) Cash at beginning of year 139,467 186,341	Other assets	(2,975)	(1,853)
Advances (39) (1,405) Deferred revenue (3,112) 5,069 Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities 27,760) (33,004) Advances to other Federal agencies - 935 Net cash used in investing activities (27,760) (32,069) Net increase (decrease) in cash 40,432 (46,874) Cash at beginning of year 139,467 186,341	Accounts payable	(2,334)	(24,923)
Deferred revenue (3,112) 5,069 Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities 2 (27,760) (33,004) Advances to other Federal agencies - 935 Net cash used in investing activities (27,760) (32,069) Net increase (decrease) in cash 40,432 (46,874) Cash at beginning of year 139,467 186,341	Accrued liabilities	3,534	2,726
Workers' compensation costs 3,540 1,465 Net cash provided by (used in) operating activities 68,192 (14,805) Investing activities 	Advances	(39)	(1,405)
Net cash provided by (used in) operating activities Investing activities Additions to property and equipment Advances to other Federal agencies Net cash used in investing activities Net increase (decrease) in cash Cash at beginning of year (14,805) (27,760) (33,004) (33,004) (27,760) (32,069) (46,874) (14,805)	Deferred revenue	(3,112)	5,069
Investing activities(27,760)(33,004)Additions to property and equipment(27,760)(33,004)Advances to other Federal agencies-935Net cash used in investing activities(27,760)(32,069)Net increase (decrease) in cash40,432(46,874)Cash at beginning of year139,467186,341	Workers' compensation costs	3,540	1,465
Additions to property and equipment Advances to other Federal agencies Net cash used in investing activities Net increase (decrease) in cash Cash at beginning of year (27,760) (33,004) (27,760) (32,069) (46,874) (139,467 186,341)	Net cash provided by (used in) operating activities	68,192	(14,805)
Advances to other Federal agencies Net cash used in investing activities Net increase (decrease) in cash Cash at beginning of year Advances to other Federal agencies (27,760) (32,069) 40,432 (46,874) 139,467 186,341	Investing activities		
Net cash used in investing activities (27,760) (32,069) Net increase (decrease) in cash 40,432 (46,874) Cash at beginning of year 139,467 186,341	Additions to property and equipment	(27,760)	(33,004)
Net increase (decrease) in cash 40,432 (46,874) Cash at beginning of year 139,467 186,341	Advances to other Federal agencies		935
Cash at beginning of year 139,467 186,341	Net cash used in investing activities	(27,760)	(32,069)
Cash at beginning of year 139,467 186,341	Net increase (decrease) in cash	40,432	(46,874)
Cash at end of year \$139,467		139,467	186,341
		\$179,899	\$139,467

See accompanying notes.

Notes to Financial Statements

September 30, 1999 and 1998

1. Reporting Entity

Basis of Presentation

The Bureau of Engraving and Printing (the Bureau), a component of the Department of the Treasury, is the U.S. Government's security printer. The Bureau designs and produces United States currency, postage stamps and other United States securities. The Bureau also advises and assists Federal agencies in the design and production of other Government documents.

The Bureau operates under basic authorities conferred by the Act of July 11, 1862 (12 Stat. 532; also, 31 U.S.C. 5114) and other Acts. In accordance with the provisions of Public Law 81-656, effective August 4, 1950, the operations of the Bureau are financed by means of a revolving fund. This fund is reimbursed through billings to the Bureau's customers for products delivered. Public Law 95-81 authorized the Bureau to include in its product prices an amount to provide funding for the acquisition of capital equipment and future working capital.

The financial statements represent the consolidation of two Federal revolving funds. The majority of all amounts and activity (over 99%) is contained in the Bureau of Engraving and Printing Revolving Fund (20X4502), which finances Bureau operations. The other revolving fund, the Mutilated Currency Revolving Fund (20X6875.13), is used to redeem damaged paper currency received from the public.

2. Summary of Significant Accounting Policies

Basis of Accounting

As a matter of policy, the Bureau maintains its accounting records and prepares its financial statements in accordance with the accounting standards issued by the Financial Accounting Standards Board (FASB). The Bureau's management has historically prepared its financial statements in accordance with FASB and continued to do so for the fiscal year ended September 30, 1999.

The Office of Management and Budget (OMB) has issued Bulletin 97-01, Form and Content of Agency Financial Statements which is applicable at the Agency (Department) level. As indicated above, the Bureau, with the Department of the Treasury's concurrence, prepares its statements in accordance with FASB.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Estimation Process

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Inventories

Inventories are valued at standard cost, except for finished goods inventories, which are valued at weighted average unit cost. Both methods approximate actual cost. Cost elements included in work-in-process and finished goods inventories are direct materials, direct labor, manufacturing overhead and manufacturing support.

Other Assets

Other assets consist principally of machinery repair parts, tools, and supplies which are used in the production of the Bureau's products. Other assets are valued at standard cost which approximates actual costs.

Property and Equipment

Property and equipment are recorded at cost. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The capitalization threshold is \$25,000. Donations valued at less than \$25,000 are expensed upon receipt. All other donations are capitalized and depreciated, as appropriate.

The Bureau occupies and uses buildings and land owned by the U.S. Government. In accordance with the Act establishing the revolving fund, the Bureau is not charged for the use of the buildings or land, but is responsible for maintenance and repair of all buildings and land improvements. The land and building shell for the Bureau's Western Currency Facility were donated by the City of Fort Worth, Texas to the United States Government. See Note 6 for details.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Depreciation

Depreciation of property and equipment is calculated using the straight-line method over the following estimated useful lives:

Machinery and equipment	3-15 years
Building improvements	3-40 years
Automated data processing (ADP) equipment and software	5 years
Office machines	5-10 years
Furniture and fixtures	5-10 years
Motor vehicles	3-9 years

Employee Retirement Plans

Bureau employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS), to which the Bureau and employees make contributions according to plan requirements. Employer contributions to the retirement plans for 1999 and 1998 were \$12.6 million and \$11.8 million, respectively. The cost of providing the CSRS benefit is more than the amounts contributed by the Bureau and the employees to the Office of Personnel Management (OPM). The full cost of providing pension benefits, including the cost financed by OPM which is not included in the Bureau's Statement of Operations, totaled \$21.4 million and \$18.0 million in 1999 and 1998, respectively. The cost of providing the FERS basic benefit, as provided by OPM, is equal to the amounts contributed by OPM, the Bureau and its employees (i.e., the plan is fully funded).

Consistent with reporting under multi-employer pension plans, the Bureau does not report CSRS and FERS assets, accumulated plan benefits, or future liabilities, if any, applicable to its employees. This data is reported for plan participants by OPM.

Postretirement Benefits Other than Pensions

Postretirement benefits for former Bureau employees, specifically health care costs and life insurance, are administered and paid by OPM through appropriations received from the United States Government. The Bureau does not reimburse OPM for these payments. OPM paid such retirement benefit costs totaling \$6.2 million and \$5.8 million, as calculated by OPM, for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 1999 and 1998, respectively. These costs are not included in the Bureau's Statements of Operations.

Consistent with reporting under a multi-employer plan arrangement, no accrued liability is required to be recorded by the Bureau for recognition of postretirement benefits other than pensions.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Workers' Compensation Costs

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Bureau's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Bureau. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. In 1999 and 1998, the liability was determined using the paid losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the discount rate of 5.50% in year one, 5.50% in year two, 5.55% in year three, 5.60% in year four, and thereafter for 1999; and 5.60% in year one, and thereafter in 1998. In 1999 and 1998, a wage inflation factor and medical inflation factor were applied to the calculation of projected future payments. Based on information provided by the DOL, the Department of the Treasury allocated the overall liability to Treasury components based on past claims paid. The Bureau's estimated liability for workers' compensation costs as of September 30, 1999 and 1998 was \$38.8 million and \$35.3 million, respectively.

Annual, Sick and Other Leave

Annual leave is accrued as a liability when earned, and the accrual is reduced as leave is taken. The balance in this accrued liability account reflects current pay rates.

Sick leave and other types of nonvested leave are expensed as the leave is taken.

Revenue Recognition

Revenue from sales to the Federal Reserve System and United States Postal Service is recognized when finished goods are delivered to the on-site Federal Reserve Depository Vaults or United States Postal Service Vault, and they are released for shipment. Finished goods are released for shipment in accordance with customer requirements. The Bureau had deferred revenue of \$1.9 million and \$5.1 million as of September 30, 1999 and 1998, which pertained to payments received from the United States Postal Service for stamps that were to be delivered in 2000 and 1999, respectively.

Reclassification of Prior Year Balances

Certain 1998 balances have been reclassified to conform to 1999 presentation.

Notes to Financial Statements (continued)

3. Cash

The year-end cash balances are as follows:

	September 30	
	1999	1998
	(In Thousands)	
Bureau of Engraving and Printing Revolving Fund (20X4502)	\$178,298	\$137,839
Mutilated Currency Revolving Fund (20X6875.13)	1,589	1,628
Other	12	
Total	\$179,899	\$139,467

4. Accounts Receivable

Accounts receivable consist of the following:

1999	1998	
= ₹₹₹	1770	
(In T	(In Thousands)	
Billed \$ 46,862	\$ 39,961	
Unbilled 4,241	1,458	
Total \$ 51,103	\$ 41,419	

The Bureau had intragovernmental accounts receivable of \$4.4 million and \$1.6 million as of September 30, 1999 and 1998, respectively. Of these amounts \$4.2 million and \$1.5 million were unbilled. Historical accounts receivable loss experience does not warrant the establishment of an allowance for uncollectible accounts.

Notes to Financial Statements (continued)

5. Inventories

Inventories consist of the following:

3	September 30	
	1999	1998
	(In Thousands)	
Raw materials and supplies	\$ 48,440	\$ 38,785
Work-in-process	15,874	26,961
Finished goods – regular currency	1,798	2,005
Finished goods – postage stamps and special products	3,843	6
Finished goods – uncut currency	2,540	2,096
Total	\$ 72,495	\$ 69,853

6. Property and Equipment

Property and equipment consist of the following:

	Septen	September 30	
	1999	1998	
	(In Thousands)		
Machinery and equipment	\$454,988	\$437,931	
Building and land improvements	137,458	140,636	
ADP equipment and software	12,431	11,834	
Office machines	7,191	10,916	
Furniture and fixtures	2,980	2,990	
Donated assets – art work	125	125	
Motor vehicles	252	324	
	615,425	604,756	
Less accumulated depreciation	287,721	258,510	
	327,704	346,246	
Construction-in-progress	5,872	4,963	
Net property and equipment	\$333,576	\$351,209	

Fully depreciated assets in use as of September 30, 1999 and 1998, were \$99 million and \$107 million, respectively.

Notes to Financial Statements (continued)

6. Net Property and Equipment (continued)

The Bureau has entered into contracts for additional production equipment for approximately \$90.6 million of which \$78.1 million has been paid to date. The remaining \$12.5 million will be paid over the life of the contracts.

The Bureau occupies and uses buildings and land owned by the U.S. Government. The land and building shell for the Fort Worth, Texas facility were donated by the City of Fort Worth to the U.S. Government in 1987, and title is held by the U.S. Government. At the time of donation, the land had an appraised value of \$1.5 million and the building shell cost was \$5.6 million. In accordance with the provisions of Public Law 81-656, Bureau financial statements include only the costs to complete the facility.

7. Current Liabilities

All current liabilities are funded and consist of the following:

	Septem	September 30	
	1999	1998	
	(In Thousands)		
Intragovernmental	\$ 9,447	\$10,695	
Other	38,272	38,227	
Total	\$47,719	\$48,922	

Accrued current liabilities consist of the following:

	Septer	September 30	
	1999	1998	
	(In Thousands)		
Payroll	\$12,970	\$ 9,615	
Annual leave	8,664	8,210	
Workers' compensation	4,645	3,764	
Other	1,291	1,699	
Total	\$27,570	\$23,288	

Notes to Financial Statements (continued)

8. Noncurrent Liabilities

The Bureau has recorded a liability for claims incurred and paid to claimants by the Department of Labor (DOL) as of September 30, 1999 and 1998, but not yet reimbursed to DOL by the Bureau. Such amounts, associated with workers' compensation, which will be paid in fiscal years 2001 and 2000, are approximately \$5.1 million and \$5.8 million, respectively. (See Note 2).

9. Revenue from Sales

Revenues are derived from the following principal customers:

	September 30			
	199	99	1998	
	(1n Thousands)			
Federal Reserve System	\$501,075	88.3%	\$369,822	84.7%
United States Postal Service	58,649	10.3%	58,983	13.5%
Other	7,671	1.4%	7,830	1.8%
Total	\$567,395	100.0%	\$436,635	100.0%

10. Principal Suppliers

The Bureau is dependent upon sole suppliers for distinctive currency paper and currency paper fibers.

11. Commitments and Contingencies

The Bureau is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Bureau are paid by the Department of the Treasury Judgment Fund. There were no payouts from the Judgment Fund in fiscal years 1999 and 1998. In employee-related cases, the Bureau's liability is limited to the employer's required contribution to the retirement and Medicare funds. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the financial statements.

The Bureau does not carry commercial insurance on its physical assets because by law the Federal Government is self-insured.

The Bureau has not entered into any long-term leasing arrangements.

Notes to Financial Statements (continued)

12. Restructuring Charge

In 1998, the Bureau incurred restructuring charges of \$4.3 million to reduce staffing and better match facility staffing and production requirements. In a effort to reduce overall staffing, the Bureau offered employee separation incentives. As a result, 128 employees accepted the incentives in 1998. There were no restructuring charges in 1999.

13. Year 2000 (unaudited)

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Bureau's computer programs that have a time-sensitive software may recognize a date using "00," as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

To ensure the operability of its core information system in the next millennium, the Bureau migrated to the Year 2000 compliant version at the end of 1996. The Bureau has performed an assessment of its other software and hardware to ensure its operability in the Year 2000 and beyond. This assessment included a review of software embedded in production equipment as well as telecommunication systems. At this time, systems deemed mission critical and non-mission critical are Year 2000 compliant. Also, all non-mission critical but important systems at both Washington and Fort Worth are Year 2000 compliant. The Bureau had conducted date-forward system integration tests at its "hot site" and has acquired the software to conduct additional testing onsite. The Bureau plans to complete the additional on-site, date-forward testing by early December. The Bureau has developed Contingency Plans, a Business Continuity Plan and a Day One Plan for the millennium change and the special Leap Year situation in the Year 2000. The Bureau also has the ability to generate emergency power for telephones and the computer facility, and physical security systems in Washington and Fort Worth on an extended basis, if necessary. In addition, the "hot site" provides the Bureau with mainframe computer disaster recovery services.

The Bureau has spent about \$2.8 million on Year 2000 related remediation efforts and does not expect to expend any additional significant amounts. Actual amounts or results could possibly differ materially from those anticipated.

The Bureau has formally contacted its major customers, vendors, and service providers to ascertain their status with respect to Year 2000 compliance. In addition, interfaces with non-Bureau systems have been reviewed and modified to be Year 2000 compliant. While no problems have been noted to date, there can be no guarantee that the systems of companies upon which the Bureau relies will be Year 2000 compliant, and will not have an adverse effect on Bureau systems or operations.

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With Government Auditing Standards

Director of the Bureau of Engraving and Printing Department of the Treasury

We have audited the financial statements of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of and for the year ended September 30, 1999, and have issued our report thereon dated November 24, 1999. We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (0MB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as applicable.

Compliance

As part of obtaining reasonable assurance about whether the Bureau's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in 0MB Bulletin 98-08, as applicable. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bureau's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving internal control over financial reporting that we have reported to management of the Bureau in a separate letter dated November 24, 1999.

In addition, with respect to internal controls related to performance measures reported in the Chief Financial Officers Annual Report we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by 0MB Bulletin 98-08, as applicable. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the Bureau, 0MB, Congress, and the Department of Treasury's Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Washington, D.C. November 24, 1999 Ernst + Young LLP

Report of Independent Auditors on Other Financial Information

Director of the Bureau of Engraving and Printing Department of the Treasury

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information in the Statements of Operations and Changes in Net Position is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

Ernst & Young LLP

Washington, D.C. November 24, 1999

2

Statements of Operations and Changes in Net Position (By Product Line) (Unaudited)

	Year ended September 30	
	1999	1998
	(In Thousands)	
Currency program revenues	\$508,746	\$377,652
Cost of goods sold	436,550	353,932
Gross margin on operations	72,196	23,720
Operating costs:		
General and administrative	30,893	32,410
Research and development	5,771	4,505
Restructuring charge		3,288
Currency-excess or (shortage) of revenues over expenses	35,532	(16,483)
Postage programs revenue	58,649	58,983
Cost of goods sold	52,957	59,630
Gross margin on operations	5,692	(647)
Operating costs:		
General and administrative	3,243	4,758
Research and development	-	3
Restructuring charge		1,061
Postage-excess or (shortage) of revenues over expenses	2,449	(6,469)
Net results of operations	\$ 37,981	\$(22,952)
Net position, beginning balance	\$540,282	\$563,234
Net results of operations	37,981	(22,952)
Net position, ending balance	\$578,263	\$540,282

PRODUCT LINE STATEMENT OF OPERATIONS

Currency Program

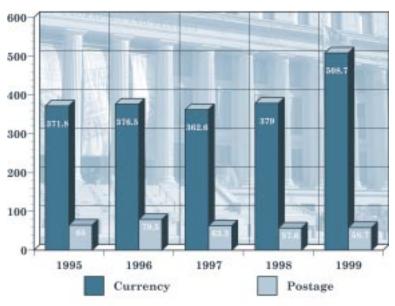
Revenues and expenses for the currency product line include small amounts related to the production and sale of miscellaneous special products and services. Currency program revenue increased significantly in 1999 as a result of record program volume. Gross margin and the Excess of Revenues over Expenses for the currency program increased as a result of program volume and lower than anticipated expenses. Expenses were lower than anticipated due to a significant increase in ink mileage, decreased spoilage and Bureau-wide cost reduction efforts.

Postage Program

Revenue and expenses for the postage product line are limited to those related to the delivery of goods and services to the U.S. Postal Service. Postage program volume decreased slightly in 1999, while total revenue was relatively unchanged. As a result of a significant decrease in spoilage, improved production planning and ongoing cost reduction efforts, gross margin and the Excess of Revenue over Expenses for the postage program increased in 1999.

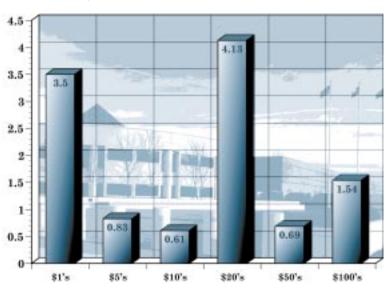
Revenue by Program

Millions of Dollars



Deliveries by Denomination

Billions of Notes



PROMPT PAYMENT

To ensure that Federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act. The Act generally requires payment within 30 days from the later of either the receipt of a proper invoice or acceptance of the goods/services. If this time frame is not met, an interest penalty must be paid to the vendor. Within the Department of the Treasury, the standard for the late payment rate is that no more than two percent of the invoices subject to prompt payment shall be paid late (at least 98 percent paid within 30 days).

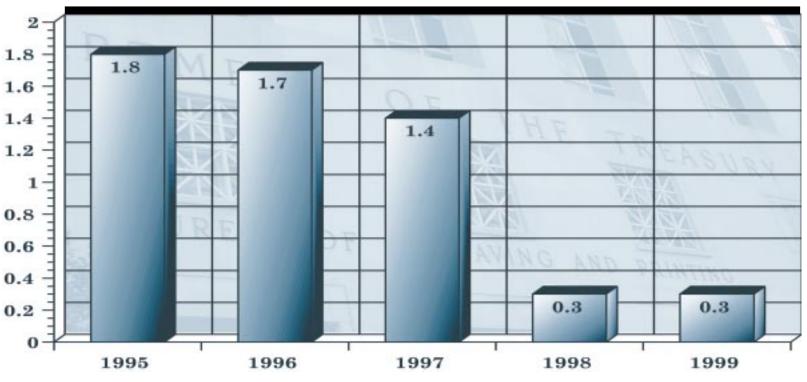
The Bureau's prompt payment performance for the past three years is presented below. As the percentages indicate, the Bureau has continued to exceed the Departmental standard for the timeliness of invoice payment. In 1999, both interest penalties paid and the late payment rate decreased to their lowest level since the Prompt Payment Act was passed. This continued improvement is due to increased use of credit cards for small purchases significantly reducing invoice volume, streamlined invoice processing procedures, and improved follow up on problem invoices.

		<u>1997</u>	<u>1998</u>	<u>1999</u>
1.	Number of Invoices Paid Late	162	30	27
2.	Interest Penalties Paid	\$2,607	\$369	\$291
3.	Percentage of Invoices Paid Late	1.4%	0.3%	0.3%

Late Payment Occurrence Rate

Percentage Paid Late

Departmental Goal (2%)



SUPPLEMENTAL INFORMATION

CAPACITY UTILIZATION	<u>1997</u>	<u>1998</u>	<u>1999</u>
Currency Program Washington, DC			
a. Printing	78 %	71 %	100%
b. Processing	63%	64%	100%
Currency Program Fort Worth, TX			
a. Printing	70%	73%	100%
b. Processing	65%	68%	100%
Postage Program			
a. Printing	43%	45%	40%
b. Processing	24%	24%	29%

^{*} All machine capacity utilization percentages are based on a three-shift, five-day workweek.

MACHINE CAPACITY UTILIZATION	<u>1997</u>	<u>1998</u>	<u>1999</u>
Currency Program Washington, DC			
a. Printing	78%	71 %	100%
b. Processing	63%	64%	100%
Currency Program Fort Worth, TX			
a. Printing	70%	73%	100%
b. Processing	65%	68%	100%

The Bureau produced a record amount of currency in 1999 as the order rose to 11.4 billion notes. In combination with the record order, the Bureau engaged in a number of equipment upgrade projects in both the printing and processing areas. This required idling or removing existing equipment. This reduced machine capacity from prior years to approximately 5.5 billion notes per plant. Consequently, actual currency program requirements exceeded standard workweek capacity. Bureau staffing and investment in capital equipment focus on projected, long-term demand and demand trends, not fluctuations in year-to-year orders. Consequently, the record program volume was most cost-effectively met through weekend overtime. This resulted in full utilization of currency printing and processing equipment at both facilities. Capacity utilization will decrease to more typical levels next year as the currency order for the year 2000 is 9 billion notes and most weekend overtime will be eliminated.

MACHINE CAPACITY UTILIZATION	<u>1997</u>	<u>1998</u>	<u>1999</u>
Postage Program	42.67	450	40.07
a. Printing	43%	45%	40%
b. Processing	24%	24%	29%

Machine capacity in the postage program significantly exceeds actual production capacity because staffing in the postage program has been reduced as demand has decreased. Printing capacity utilization decreased in 1999 due to a slight decrease in postage stamp requirements. Processing capacity utilization increased slightly this year as older processing equipment was retired.

Bureau of Engraving and Printing Executive Officers

Thomas A. Ferguson

Director

Thomas C. HarrisDeputy Director

Gregory D. Carper
Associate Director
(Chief Financial Officer)

William W. Wills
Associate Director
(Chief Operating Officer)

Joel C. Taub
Associate Director
(Management)

Carla F. Kidwell Associate Director (Technology)

Carrol H. Kinsey, Jr. Chief Counsel



Executive Officers—Seated left to right: Gregory D. Carper, Thomas A. Ferguson, Thomas C. Harris. Standing left to right: William W. Wills, Carrol H. Kinsey, Jr., Carla F. Kidwell, Joel C. Taub.

For additional copies of this report, call 202-874-3396 or write to:

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